

EXHIBIT NO.

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DATE:

1-18-2011

January 18, 2011

BILL NO.

SB 137

Senator Llew Jones and Committee
Highways and Transportation Committee
PO Box 200500
Helena, Montana 59620-0500

Mr. Chairman & Committee Members:

As many of you know, I represent State Farm Insurance Companies with regards to legislative and regulatory issues. Due to a scheduling conflict, I was unable to attend the January 13 Highways & Transportation Committee hearing on Senator Windy Boy's SB 137, a bill to prohibit an insurer's use of credit information. Through the miracle of technology, however, I was able to monitor the hearing from afar. Near the close of the hearing, I believe I heard one of the Senators ask whether there was any Montana-specific studies on the use of credit information in this state. I would like to take this opportunity to respond to that question.

There have been no formal Montana-specific studies, of which I am aware, that study any individual insurer's use of credit information in relation to Montana consumers. Because Montana represents such a very small portion of the national marketplace, I would not expect any company to undertake that kind of a study in Montana. I can tell you, however, that any insurer that utilizes credit information in its risk assessment is required to send its formula/algorithm to the Montana Department of Insurance for review and approval. As for my client, State Farm, that process has been accomplished years ago. I would assume the same to be true for every other insurer that utilizes credit information in Montana.

To address some of the general concerns raised during the hearing, it is a common misperception that using credit information generates more revenue for insurers. This is not the case. The use of credit information simply allows insurers to develop more accurate rates, which in turn requires that an individual consumer pays for insurance in accordance with the risk that the individual consumer represents. In fact, outlawing use of credit information would unfairly harm as many or more insureds and applicants (through higher rates) than it would help.

With regard to some Montana specific figures from State Farm, during the most recent year (2010), a credit-based insurance risk score was used along with many other factors to rate most of State Farm's new auto policies. More than half (57% or about 13,750 policies) received a lower premium due to the credit-based risk score, and the others (43% or about 10,400 policies) received higher premiums. During the 4 years since 2007, Montana consumers have benefitted from having more than 52,000 new State Farm auto policies written with lower rates based on the credit-based insurance risk score (be aware that during that same time period 40,000 new policies were written with higher rates).

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I apologize to the Committee for being unable to attend the January 13, 2011 SB 137 hearing in person, and trust that the information contained herein is responsive to the inquiries of the Committee.

Sincerely,

A handwritten signature in black ink, appearing to read 'G. Van Horsen', written over the printed name.

Gregory A. Van Horsen